

PSRS Legislative Proposal:

A. What is the legislative proposal?

Immediate Action: Excess payments by local governments (counties and cities) that are made to the Public Safety Personnel Retirement System (PSPRS) in order to reduce the local government's unfunded liability to the PSPRS shall be excludable from its expenditure limit calculations.

Longer-term-solution: Form a Legislative Study Committee to study and make recommendations that will change the PSPRS in ways that will protect the long-term viability of the system and at the same time prevent local governments from long-term inability to fund their portion of the system.

B. Describe the problem and explain how the proposal solves it.

Local governments are contractually required to contribute an amount to the Public Safety Retirement System for each public safety officer.. The system must be solvent by statute and the officers' share of costs is capped at 7.65% (assuming the Hall case is won). That means that local governments must pick up the rest of the cost. Currently the local government share of cost for Cochise County for FY 15/16, for example, is 51.39% of each officer's salary. Other cities and counties are in even worse shape. The situation is further complicated by the fact that retirees in the system are guaranteed a cost of living increase in any year that the system earns more than 9%, for officers hired before 2012. Even if the system loses money in the following years, the liability incurred by the COLA continues on. So the system could lose money for several years in a row but if there is a single year gain (that doesn't offset the losses from previous years), there is an automatic increase in the system. Local governments are in a bad spot, and as the percentage of salary for officers increases, they cannot afford to hire new officers. Yet at the same time they are still on the hook contractually for any shortfalls in the system, and would have to increase their share of costs for the officers they do have to cover in the system shortfall. Public safety officers have no incentive to change the system as their shares of cost are capped and retirees are guaranteed periodic COLA's any year the system has more than a 9% gain. In the long run, the costs are going to bankrupt local governments. Legislators should look at all the Retirement Systems, particularly the PSPRS, and any long-term solution needs to hold harmless those current officers and retirees who may have a contractual right to the current level of benefits.

There is a short-term solution, but it too will require a legislative change. Local governments could make substantial payments to the PSPRS to cover their unfunded liabilities to the system. By putting this up-front money to work, and having it earn interest, the local governments can cover their shortfalls and get ahead. However, in doing so, local governments will likely run afoul with their respective expenditure limitations; as such payments are not excluded from their expenditure limitation calculations. This proposal would allow local governments to make such payments

(in the case of Cochise County, two payments of one million dollars would be made), but it cannot do so without exceeding the expenditure limitation.

C. What is the fiscal impact to the state or county budgets of the proposal?

There is no impact on the state budget. The County budget should have minimal impact. Counties are still subject to the expenditure limitation and must do whatever fix is required within that parameter. It will enable counties to make a sensible and proactive effort to keep up with this otherwise unfunded liability that will continue to grow each year until it reaches crisis level. The local governments would likely have to seek state help to solve a major financial crisis.

D. What is the preliminary analysis of the political environment and stakeholders' and affiliates' comments?

There should be general support among stakeholders (local governments) and no opposition from PSPRS officers and retirees for the short-term recommendation as that will enable the officers to continue to receive all their benefits from the PSPRS. There may be some opposition from Legislatures that wish to limit spending by local governmental entities; however, even that may be offset by the need to reign in a growing unfunded liability. This is further offset by the need for local governments to live within their respective expenditure limitations. The longer-term recommendation to study long-term solutions to the solvency of the PSPRS and local governments' contributions thereto may generate concern from officers and retirees, who have no current incentive to see the system change.

E. Who is the primary county contact information for the proposal (name, phone, email and other relevant information?)

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